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## **State's spendable cash runs out in late May**

PHOENIX (AP) - Noting he'd have few options to pay the state's expenses unless lawmakers act, State Treasurer Dean Martin said Tuesday that a revenue shortfall has the state on track to run out of cash it can spend in late May - five weeks before the fiscal year ends on June 30.

"You do have to do some sort of action," Martin told the House and Senate Appropriations committees during a joint meeting.

Republican legislators and Democratic Gov. Janet Napolitano are debating how the state should close a revenue shortfall estimated at up to \$970 million in the current \$10.6 billion budget. Options being discussed include cutting spending, withdrawing money from the state's reserve, delaying some expenses and borrowing to cover some costs.

Tax collections are less than anticipated because the economy is slowing, particularly in the housing industry, and Martin said daily spending is exceeding receipts.

Martin's estimate for when the state will run out of spendable cash represents a fine-tuning of an earlier estimate by the former Republican legislator.

"We would expect the general fund to have ... spent every dollar it would expect to receive for the entire year by the end of May," Martin said.

Even though the state would still have cash in its reserve and other accounts after the general fund empties, Martin said his office can't touch that money without legislative authorization.

"It would be illegal to take those dollars out of the rainy day fund without your appropriations authority," Martin said. "We have cash. We just don't have the authorization to spend it until you pass budgets."

Once the state can't cover its warrants, then it's up to individual banks to decide whether to make good on state paychecks or payments to vendors, Martin said.

"We may be testing the patience of the various banks in the state," Martin said. "It's a problem we've never had before and I would hope we would not have this time."

Also, he said he wouldn't be able to issue "tax anticipation notes" - a form of marketable IOU repaid from expected tax collections - once revenue collections hit the revised, lower estimated projection of \$9.6 billion.

He also said there's no indication that state agencies reduced their overall spending during the first half of the fiscal year in response to early indications of the developing shortfall.

Napolitano told agencies in September to defer hiring and other discretionary spending because

of the shortfall

"We're seeing the normal growth pattern that would have been expected based on the budget that was enacted," Martin said, adding that he didn't have agency-by-agency figures.

House Appropriations Chairman Russell Pearce, R-Mesa, said the shortfall should prompt state agencies to defer spending and that agency directors should be held responsible if they don't.

"Tough times require good managers," Pearce said. "Maybe it's time to look at new agency heads."

However, Martin said the executive branch can only go so far in holding down spending without legislative authorization.

That's because a 1990s state Supreme Court decision said legislative appropriations effectively represent both a floor and a ceiling for state agencies, he said. "They have to make certain expenditures unless they're given permission to not do them."

Sen. Jorge Garcia, a Democratic leader from Tucson, spoke in defense of Napolitano, noting that she proposed a budget-balancing plan back in September when the shortfall was put at \$600 million. Napolitano recently revised it to \$870 million when the shortfall grew.

"The plan is out there. It's that we as a Legislature have not acted," Garcia said.

Martin cautioned that the economy appears to be in a trough but may not have hit bottom yet because some subprime housing loans have yet to reset at higher rates, which would trigger more foreclosures for overextended borrowers.

"Once we hit bottom, it's going to take at least another year to get out of it," he said.